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# Realty Trust Review

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## INVESTMENT TRENDS: MARKET VALUE ACCOUNTING MAY CHANGE THE WAY INVESTORS LOOK AT REITS

Thanks to inflation and the Securities & Exchange Commission, investors are going to get a professional look at the current market value of the assets of some equity REITs and real estate companies in coming months. Initial impact upon REITs may be minimal this year, because only about nine large equity trusts with assets over $100 million come under the S.E.C. directive that large companies disclose value of their assets and inventory.

Real estate men have long sought to report market value of properties in their balance sheets instead of the conventional original cost less depreciation. Naturally they felt that market value would be much higher. But the accounting profession resisted until late last year when the S.E.C. directed all large companies to report the impact of inflation upon their assets in footnotes to their financial statements.

But late in August Rouse Company, a large shopping center developer, went the S.E.C. one further by publishing its balance sheet with a complete second column for market value of operating properties. Not surprisingly, that balance sheet showed Rouse's shareholders' equity $113 million higher than the reported $16 million. The extra $113 million is styled as "revaluation equity." To arrive at that value, Rouse's staff evaluated the properties internally, using an agreed-upon formula applied to present and future net cash flow. Then Rouse's auditor, Peat, Marwick, Mitchell & Co. hired the New York City real estate consulting firm of James Landauer Associates to review the Rouse valuations. The annual report carries certifications by both Peat, Marwick and Landauer that market value should not vary more than 10% from the estimated equity value.

So far the Rouse approach has generated a lot of discussion and looking but no followers. Both Cabot, Cabot & Forbes Land Trust and BankAmerica Realty Investors have issued annual reports for their May and July fiscal years respectively without

### MANY THANKS

Your response to our offer to send individualized evaluations of the REITs you hold has overwhelmed us temporarily; we'll be sending them along as quickly as possible.

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including market values, even in footnote form. Neither General Growth Properties nor B.F. Saul REIT, two large equity trusts, will incorporate market values for their fiscal years that just ended Sept. 30. Other trusts which come under the rule and their fiscal years are C.I. Realty Investors, Feb. 28/9; Continental Illinois Properties and First Union Real Estate, both October 31; ICM Realty, Nov. 30; and U.S. Realty Investments, Dec. 31.

But the light pass over now may be misleading. First Union Real Estate last year had its accountants prepare a price-level adjusted balance sheet, which resulted in a supplemental 45% upward revision of shareholders' equity of about $16.4 million to $52.1 million. Price-adjusted book value was $13.15/sh., vs. $8.95 based on historical cost. First Union's auditors used the cash income method in estimating values, and this capitalization of cash income is believed by management to produce values similar to those that would be fixed by outside appraisers.

With varying methods and terms cropping up, the investor is likely to be confused about the real meaning, if any, in these valuation exercises. Certainly the prospect or market valuations has not created any stampede to buy shares of the large equity trusts so far. And there's the question of whether equity trusts with assets under $100 million can or will follow the lead of the majors. The concept is still so new that few REIT managers have formed firm opinions yet.

In the final analysis, the market will believe what it wants to believe about valuation--which is another way of saying that investors generally will base their price upon expected future earnings, not some appraisal. Oil company investors for years have been receiving estimates on the value of oil reserves from respected engineering firms. Those valuations are largely ignored in buying and selling stocks. One large company, for instance, has oil reserves valued at $65/sh. but currently trades at only $23.

Overlooked in the discussion is that the mortgage trusts have already been converted to market value accounting--with devastating results for many. The mechanism was the American Institute of Certified Public Accountants decision in June 1975 that troubled mortgage trusts must value their assets at "estimated net realizable value." A complex formula taking into account estimated costs to hold problem properties and mortgages is used to determine this amount. As a result REITs have reduced carrying values of their assets by about $1 billion over the past year, increasing their reserves by the same amount. About a dozen mortgage REITs have fallen into negative net worth under this rule. To muddy the water further, the S.E.C. insists that assets swapped to banks be exchanged at "current market value," which has been some 5% to 15% below net realizable value.

REITS & BANKS: CONTINENTAL MORTGAGE IN CHAPTER X WHILE SUTRO GETS $35 MILLION

Continental Mortgage Investors, second oldest and largest mortgage REIT, is being ordered into Chapter X proceedings where a court-appointed trustee will take over, investigate trust affairs, and try to work out a rehabilation plan. The $641 million trust last March sought protection under Chapter XI of the bankruptcy laws, which lets management stay in control while it tries to work out an arrangement with its creditors.

But a group of major banks and the S.E.C. both pushed for much more extensive overhaul under Chapter X. CMI fought back with a plan to transfer nearly all assets to a new corporation owned by bank and institutional lenders. In effect, the trust was saying that if banks had no confidence in CMI management, they should take over

and run the trust's properties themselves. But this plan foundered when the Chapter XI creditor's committee recommended full liquidation, which CMI had argued might mean losses running from 40% to 80% of assets. Faced with this non-support from the creditor's committee, CMI joined in moving to shift into Chapter X.

The move signals that major banks now feel so sure of their ability to work out of the real estate recession that they are willing to take a major liquidation. It also means that more and more troubled REITs will be under greater pressure from their banks to repay debt, swap assets for bank debt, and otherwise accelerate their liquidation to sustainable operating levels.

It also spells more pressure on subordinated debt holders to squeeze down their position and capture market discounts on bonds for benefit of shareholders. This makes sense to banks because it opens a route to swing trusts from negative to positive net worth; otherwise bank examiners might ask a lot of questions about loans to trusts that are technically insolvent. Frankly, we think most REIT subordinated debt holders have been poorly represented by their indenture trustees, who've largely acquiesced to deals between banks and REIT managers to squeeze out subordinated holders. A case in point is Alison Mortgage Investment Trust which is currently tendering to buy at least two-thirds of its $25 million of 8-3/4% senior subordinated notes due May 15, 1979 at 30% of principal. The offer is to expire Oct. 8, as this is written, although there's expectation that it will be extended but not beyond Nov. 14 without bank consent. Alison hasn't paid interest on these notes since Nov. 15, 1975 and tendering holders would not receive any accrued interest. The trust expects that non-tendering holders, as well as holders of two other subordinated issues now in default, would receive interest, provided cash is available, banks approve and senior debt is not in default. Note holders are also asked to give permission to let the trust pledge substantially all its invested assets to secure its $171.6 million bank debt. The pledge would upgrade banks from unsecured to secured creditors and "likely eliminate the utility of a Chapter XI arrangement as a vehicle for working out the trust's financial difficulties in a manner beneficial to the noteholders." The only other trust making a cash tender offer currently is NJB Prime Investors, which initially offered to buy debentures at 20% of par and then upgraded this to a current 22%.

In the wings are two possible exchange offers to subordinated debt holders. Great American Management & Investment (formerly Mortgage) says it plans to offer holders of its three subordinated debentures a package of a new convertible preferred stock and cash in exchange for debt. The new preferred would have liquidation preference of $10, be convertible share for share into common, be callable at $4, and carry a $0.35 annual non-cumulative dividend payable only if earned and if senior debt was not in default. Holders of GAMI's 7.55% senior subordinated debentures due 1979 would be offered $110 in cash and $890 liquidating value (or 89 shares) of preferred for $1,000 principal. Holders of the 8.75% junior subordinated debentures due 1983 would be offered $90 cash and 91 preferred shares ($910 liquidating value) and the 7% convertible debentures due 1991 $70 in cash and 93 preferred shares ($930 liquidating value). In this same vein Chase Manhattan Mortgage & Realty Trust is considering offering cash for its 7-7/8% senior notes due 1978, and a new issue of convertible subordinated debentures for its three other issues of subordinated debt. Making of this offer depends upon unanimous agreement of its banks plus filing of a formal offer with the S.E.C.

On the plus side, Sutro Mortgage Investment Trust won a $35 million loan commitment from 11 banks led by Bank of America. Sutro will use the funds to begin making new construction loan commitments, first time in 18 months the trust has been able to accept new business. Sutro is the first non-institutional REIT to get bank support to re-enter construction lending. The trust is sponsored by Ralph C. Sutro Co., old-line mortgage banker in Los Angeles, and is reviewed this issue.

C.I. REALTY INVESTORS (3½--NYSE-CIX) FY Feb. 28/9

Real estate investments: This very large equity trust has begun slimming its apartment holdings, using proceeds to repay bank debt. Banks are seeking repayment because CIX ventured into mortgage lending, all with borrowed funds, and suffered devastating losses leading to the dividend omission. Today holdings of $176.1 million are 90% equity investments in property and joint ventures, and 10% in the troubled loan portfolio.

Equity investments of $158.6 million net of depreciation are 66% in apartments, 29% in three Manhattan office buildings, and 5% in Truman Corners shopping center in Grandview, Mo. CIX has just sold or agreed to sell eight apartment complexes for $8.6 million cash over $19.2 million first mortgages, the cash going to reduce bank debt. CIX's experience with the complexes illustrates the difficulties apartment owners have faced in recent years. The trust bought most of the complexes, which have 2,048 dwelling units, in 1972 and has invested $28.1 million in the units. During its years of ownership CIX paid about $2.3 million down on its mortgages and accumulated $2.2 million depreciation. The total sale price, including sales scheduled to close in December, is about $27.7 million. All this means that CIX will recover its $6.7 million remaining net cash investment plus about $1.8-$1.9 million of the depreciation, some part of which will be reported as a capital gain. In other words, the apartments paid their way for four years but didn't appreciate in value during the hectic economic times of soaring utility costs, rising taxes, and soft rents due to overbuilding.

Operationally the closed and pending sales take CIX out of some farther away locations, notably Minneapolis, Omaha and Lincoln, Neb., St. Louis, Tulsa, and Springfield, Mass. With the sales CIX will still hold 6,147 apartments in ten states; about one-third, or 2,101 units, are in Ohio (Cleveland, Columbus, Dayton), and other large holdings are in Philadelphia, Indianapolis, Atlanta, New Orleans, Houston, and Tennessee (Memphis, Nashville). Buyers of the properties were local real estate groups except for Tulsa, where Consolidated Capital Realty Investors, a REIT, bought the units. Apartment occupancy has been rising and now is very near 95% overall; cash returns on this portfolio are said to run in the 7%-8% area on the trust's remaining $22½ million net cash investment.

Manhattan office holdings are being affected by the still-soggy rental market but the trust is able to make some progress because its buildings have a lower cost basis (about $33.25/sf on the 1,497,000 sf of rentable space), vs. new space costing twice as much or more. Thus the trust can sign new leases in the $7-$8/sf range and be profitable, while competing buildings are in the $8-$10 range. Leases for about 200,000 sf expire in both fiscal 1977 and 1978, with rents at about $5.50/sf. So far CIX has re-leased about 41,000 of this year's space, and some tenants are renewing. All in all the buildings appear competitive and will be able to hold their own. The big problem is that two low-rate mortgages with balloon payments mature in the next two years and must be replaced or extended. A $9.2 million loan on 485 Lexington at 7½% will come due, and a $9.3 million mortgage at 5.52% on 750 Third Avenue matures in September 1978.

The Truman Corners shopping center is doing excellent business and generates about a 10% return with lower-rate purchase money mortgage financing. That $4.2 million loan matures early in 1978 but refinancing is believed no problem. CIX holds 20 acres undeveloped land here that could be used for expansion.

Problem mortgage loans are 58% nonearning and foreclosed property. In addition, CIX has reacquired four apartments by deeds in lieu of foreclosure and is operating them as investments. One of these projects is among the eight recent sales. Major problem properties are being worked out slowly: a $1.9 million investment in Dutchess Mall, Fishkill, N.Y. is in the courts and possession is expected soon; all work is done except tenant improvements; a $3.3 million participation in stalled Colony North Apartments in Ft. Lee, N.J. awaits local approval of a plan to re-start construction; the first three industrial buildings in a Wallkill, N.Y. industrial

park have been leased and it's hoped that activity will boost development in the remaining 96 acre industrial park, in which $2.4 million is invested. And over half the 245 units in troubled Braemar condo in Ocean City, Md. have been sold or are under sale contract. Loss reserves of $5.33 million have been set aside for possible future losses; this equals 31% of mortgage loans, one of the highest loss reserve percentages of any REIT.

Financing: Total capital funds of $173.3 million are 59% secured mortgage debt on property owned, 16% loans from banks, and 25% shareholder equity (book value is $16.62/sh.). Total debt of $129.7 million is 3.0 times shareholder equity, but unsecured bank debt is only 0.6 times equity. CIX operates under a one-year revolving credit with its banks expiring June 1, 1977, with interest at the prime rate. Proceeds from property sales must go to pay down bank lines, and the trust makes clear its intention of cutting bank debt further. Management: The adviser is a subsidiary of City Investing Corp.; the adviser has operated without fee for the past two years.

Results & outlook: The trust reported losing $0.03/sh. in the May quarter, vs. a $0.01/sh. loss the year before. Net cash flow was $0.15/sh. however, down from $0.18 the year before. Numerous uncertainties still face the trust including the Manhattan refinancing but on balance the trust appears to have passed its crisis point. The Manhattan office buildings and apartments are competitive, and the apartments saleable to provide liquidity. Pending sales will reduce bank debt to about $21½ million, and should have positive impact on earnings by lowering interest charges. We cannot see any near-term dividend resumption but the shares are worth holding for longer-term recovery or a possible tender offer. (KDC)

HOSPITAL MORTGAGE INVESTORS (5-7/8--ASE--HMG) FY Feb. 28/9

Real estate investments: Investments of $36 million are 69% mortgage loans, 12% foreclosed apartments held for investment, 18% investments in joint ventures to develop problem properties, and 1% foreclosed real estate held for resale. Longer-term mortgages are permanent loans and another 12% standing, non-amortizing loans on completed properties. By property type, investments are 34% medical facilities, 19% apartments, 24% land and development, and 17% condominiums. These latter two categories have provided the bulk of problems and loss of liquidity in the portfolio. About two-thirds of investments are in Florida.

Investments not earning income amount to 42.6% of holdings, or $15.5 million. These properties are not producing income due to depressed market conditions but are not total losses. Nonearning investments have been holding at above 40% of the total in recent quarters, indicating the trust may be experiencing greater difficulty in keeping its record of continuous dividends intact. In addition, the trust continues to accrue interest on four loans with $10.8 million balances (or 29% of the total) where borrowers have experienced various difficulties; underlying values are believed adequate to support continued accrual. Major problem loans include $3.4 million as 44% participant in 146-unit Malaga Towers condominium in Hallandale, Fla.; units are 60% sold or under sale contract; and $2.5 million in 208-unit Swank Apartments experiencing negative cash flow in Fairborn, O. Two joint ventures have been set up to build out land tracts in Miami: in one, HMG agreed with the original developer of a multi-family, shopping center and golf course tract in Briar Bay to joint venture and receive proceeds as land is sold, The developer could not repay the $4.3 million loan when it matured last year. In the other, the trust and its co-lender, Cabot, Cabot & Forbes Land Trust, have agreed to joint venture development of controversial Sailboat Key in Miami, provided zoning and other litigation matters can be cleared up; HMG has $2.2 million invested.

Two foreclosed apartments are being held for investment, 138-unit Carriage House in Temple, Tex. and 125-unit Casa Grande in Oklahoma City. HMG sold a third foreclosed apartment, Twin Ridge II in Green Spring Valley, Md., at a $50,000 loss last year.

Loss reserve: Management has set aside $1.2 million for possible future losses on investments, based upon estimates to hold problem properties to disposition. The reserve is 3.4% of total investments, well below the 11% industry average. The reserve includes $700,000 sale proceeds from the Hallandale condominiums being held in escrow pending settlement of possible legal claims. HMG charged $952,000 to the reserve during fiscal 1976. Additions to the reserve are likely.

Financing: Total funds of $38.3 million are 70% shareholder equity (with 1,178,000 shares) and 30% in $11.4 million bank borrowings. Debt is only 0.5 times equity, one of the industry's lowest leverage ratios. The trust pays full interest rates and is expected to maintain compensating balances of approx. 20% of amounts borrowed. Management: HMG is advised by a company owned half by R.H. Medical Services, owner and operator of hospitals, and half by Courtland Group, Inc., diversified real estate holding company.

Results and outlook: August quarter earnings fell to $0.15/sh. from $0.19/sh. in the prior quarter. The $0.15 quarterly dividend was continued, as it has been for about two years now. Quarterly earnings have been trending downward as nonearning investments rise, reflecting HMG's exposure to Florida's deep real estate problems. Medical investments, all earning income, and permanent mortgages have been stabilizing influences and will be stressed. Shares have been moving downward recently, reflecting uncertainty over the outlook and potential for dividend cuts. Until some real progress in reducing problem loans is made, shares are best treated as speculative trading vehicles only, but the 75% discount from book value may afford some longer term recovery. (KDC)

MORTGAGE GROWTH INVESTORS (4-7/8--ASE--MTG) FY Nov. 30

Real estate investments: Formed in 1971 to provide full-range financing at initial stages of development, Mortgage Growth saw its concept crumble, first as easy money of 1972-3 eroded loan quality, then as the real estate depression hurt its borrowers. Today the trust has adopted extremely cautious policies to position itself for a real estate recovery. Construction loans have been eliminated, sometimes through property acquisition; second mortgage positions are gradually being liquidated but still amount to 14% of holdings. As a result investments of $39 million are now 61% equity in three apartment projects, all acquired after borrower defaults and held as investments; 13% permanent first mortgages; 14% junior mortgage loans, 12% land leased to others, and about ½% in shares of other REITs, at market. Apartments dominate at 60% of investments, while office buildings are 22%, land mortgages 8½%, shopping centers 6½%, and condominiums 2%. About 33% of investments are in California, 11% in Florida, 19% in Louisiana, 12% in New York.

About 16% of investments are classed as not earning current income and 48% are earning below normal rates. These properties are generally temporarily hurt by depressed real estate markets and are not total losses. The three acquired investment apartments dominate and include 429-unit Crystal Springs Terrace in San Bruno, Cal., 516-unit Pasada del Ray in Metairie, La., and 88-unit Metro Villa Apartments in Harrison Twp., Mich. The first two are completed and provided $612,000 gross cash flow in the May six months, or about 6½% cash return on $19.1 million investment. Both are held free and clear of mortgages and management has decided not to seek mortgage financing until real estate market conditions become more settled. The trust acquired Metro Villa after construction had halted and is finishing work; investment is $2.8 million, including land for an additional 288 apartments. Nonearning investments include $1.9 million on an undeveloped tract in Laurel, Md., where a sewer moratorium has halted development, and $1.2 million second mortgage on a New York City office building, now foreclosed. About $1.1 million remains to be funded on commitments.

Loss reserve: A total $1.0 million has been set aside for possible future investment losses, the amount based upon management estimates of the costs of holding properties to disposition. The reserve is about 2% of investments, well below the industry average.

Financing: Total funds of $24.2 million are 76% shareholders' equity and 24% in 7-3/4% subordinated debentures convertible at $12.21, all held by institutional investors. The trust has bought back about $3½ million of the debentures to cut outstanding to $9.4 million. Total debt is 0.3 times shareholder equity, among the industry's lowest leverage ratios. All bank borrowings have been repaid.
Management: MTG is advised by a subsidiary of Sonnenblick-Goldman Corp., New York City mortgage broker which also advises North American Mortgage Investors, a short-term trust.

Results and outlook: MTG earned $0.16/sh. in the August quarter, including $0.10/sh. gain on repurchase of the convertibles. Earnings of $0.31/sh. in the nine months included $0.14/sh. gain on such repurchases and $0.22/sh. gain on sale of land. Depreciation added $0.21/sh. to cash flow. Dividends were $0.12/sh. in the latest quarter, down from the prior quarter's $0.17. With low leverage and cash flow from apartments rising, the trust is in a comfortable position to solve its problems and gradually redeploy assets into more profitable properties. Although there is nothing exciting in sight near-term, shares are a buy/hold for longer term recovery. (KDC)

U.S. REALTY INVESTORS (1 7/8--NYSE-UTY) FY Dec. 31

Real estate investments: Depreciated investments were reduced 7% to $124 million in the twelve months to June 30, 1976. Breakdown remained evenly divided between equity and mortgages with 44% equity, 5% joint ventures and 50% mortgages. The equity portfolio, 47% of whose gross cost was in the trust's home state of Ohio, consists mostly of properties on net lease of the following type allocated by gross cost: 35% motels, 33% shopping centers, 26% office buildings and 6% other. Many of these are over ten years old with the gross value of $83 million depreciated 34%. The mortgage portfolio, 32% Florida and 26% Ohio, was 15% shopping centers, 24% apartments, 34% condominiums, 7% motels, 6% office buildings and 12% land. The $62 million mortgage sector was shrunk another $5 million via swaps to bank creditors in the last month. The swap agreement was not reached until August, three months later than expected. Another $11 million in swaps are in negotiation. Thus far, swaps have been at par or better and it is contemplated that future swaps will also be at par. The better loans are the ones being swapped presently. Thus since the beginning of the year, mortgages were reduced $9 million to $57 million. The heart of the trust, equity holdings, remain profitable although less so in 1976 than prior years because of a few trouble spots. Continuing problems were experienced with motels in Atlanta, Ga. and St. Louis, Mo. The Atlanta motel resumed cash payments providing the trust with $240,000 during the summer months July to September. It is not known how this unit will do from here. The Downtowner in St. Louis is no longer negative. The joint ventures, although a small portion of the portfolio, are now a bright spot. In partnership with highly regarded Forest City Enterprises, two projects are cash flow positive in total. The Wheatfield Shopping Center in upstate N.Y., a potential 1500 acre varied development, remains very good. Already 500,000 sf of shopping center space is 100% occupied with 120,000 sf to be added for a major department store and another 90,000 sf for additional tenants of which 30,000 sf is close to completion. Additionally, they are going into their first residential development. The other partnership is a 41-acre apartment project in Denver, Colo. The first phase of 256 units is now fully occupied and cash flow positive. It does not carry the improved but still vacant adjoining land for which plans are being made.

Nonearning investments: Problems totalled about $42 million at mid-year of which $25 million were non-earning and $17 million low-earning, 20% and 14%, respectively, of the entire portfolio. Most of the restoration to partial earnings took place in recent months. The biggest problem is $2.2 million in unfinished condos, Sandy Hills in Puerto Rico, which it hopes to foreclose in November. Nearly $7 million is loaned on five former Grant City shopping centers, three of which are re-signed, a fourth is being signed and the fifth is in negotiation. These properties should be earning in two months. Of two other shopping centers, one was taken title to and the other is in foreclosure. Apartment loans for $6.4 million are improving

with cash flow now. There was $17.6 million in condos which is being worked down: $4 million in Palm Beach, Fla. down to $1.5; $3 million in Hollywood, Fla. starting to sell; $1 million in Aspen, Colo. is down to its last unit; and $4 million in condo/land combination in North Key Largo, Fla. selling more than half way. There are also some small land parcels, all but one of which were foreclosed.

Financing: Fundings are $125 million of which 21% is capital and 79% unconvertible debt. Capital of $26 million is 60% equity and 40% convertible debentures, publicly traded 5-3/4s due 1989. Straight debt is 41% secured mortgages and 59% bank lines. The bank lines, now down to about $52 million, were extended to November. A new agreement is being drafted to consolidate them into one line. The terms being drafted are to pledge the mortgage portfolio and second mortgages on half the equity portfolio with interest to accrue from cash flow of not less than 5-3/4% up to 125% of the prime rate with no compensating balances. The agreement is to run three years. Sponsor: Non-qualified REIT, independent. Principals, from a Cleveland law firm, own about 6.4% of shares.

Results & outlook: June cash flow remained negative, $0.36/sh. after $0.23 loss reserve vs. a $0.19 deficit in the March quarter. It will take a few quarters before breakeven is reached even though major progress has and is being made in restoring nonearning assets. Dividend resumption will take even longer because the banks must be satisfied and debt paid down. Additionally, requalification for REIT tax status will be necessary for full benefit of dividend passthrough. Nevertheless, there is fair probability for share recovery at current price 60% below stated book value. Some time will be required to see the nature of swaps and workouts, some of which will require two years or more. The debentures have some appeal for fair speculative yield. (BS)

SUTRO MORTGAGE INVESTMENT TRUST (6-7/8--NYSE-SUT) FY March 31

Real estate investments: Holdings were reduced 21% over the past year to $80 million this June, one of the few trusts to realize its goal of shrinking assets. Investments will shrink another $5 million or so over the next two-three quarters and then rise $5-10 million as management announced it was again making new commitments. The trust has therefore proven its viability going through 12 years of operation and the recent cycle without serious erosion. California oriented with 53% of the portfolio there, foreclosures over the year now provide significant real estate ownership, 38% of all holdings. Breakdown by significant type of the two segments: loans: 30% motel & hotel, 27% apartments, 14% industrial and 13% long term; ownership: 35% apartments, 32% motel & hotel, 16% office. Less than 3% of all holdings are in the troublesome condo area.

Nonearning investments: The trust lists $2.1 million in loans and $12 million in foreclosed property as nonearning, a total of $14.1 million, 18% of holdings. Additionally, $18.6 million of foreclosed property provides a low but not too low return. The biggest problem remains the $4 million participation in the Blue Hill office building, 30 miles from New York City in the suburbs. Only 8% occupied, potentially sizeable loss remains possible. Other big nonearning foreclosures: $800,000 participation in Atlanta, Ga. office building, $955,000 in two industrial buildings in Oklahoma City, Okla., $3.5 million participation in 165-unit hotel in Silverthorne, Colo., $1.1 million in 65 apartments in Los Angeles and $1.1 million participation in 67 condo units in Lake Worth, Fla. Gradual progress is being made with foreclosures.

Financing: Funding of $78 million is 72% capital and 28% unconvertible debt. Capital consists of 63% equity and 37% convertible debt, two publicly traded issues, 6-3/4s of 91 and 6-3/4s of 82. Straight debt was 83% notes to banks and 17% in $3.8 commercial paper rated prime by Fitch backed by two letters of credit for $1.9 million each from two banks. The big news is that Sutro has succeded in its year long negotiation to obtain new bank credit to finance new commitments. Bank of America agreed to lead a $35 million credit line. Sponsor: Ralph C. Sutro Co., California mortgage banker, 44th largest servicing $800 million.

Results & outlook: In the June quarter, $0.08/sh. was netted after $0.05 loss provision vs. a $0.10 loss. Operations should stay profitable but exact numbers will be a function of loss reserves required. The $4.2 million reserve is only 5.2% of portfolio. At 55% below book value, shares have further recovery potential but a fair period of workout is required. Debentures provide fair speculative income. (BS)